Hindustan Petroleum Corporation Limited

March 29, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit Limits	4,000	[ICRA]AAA (Stable); Assigned
Fund Based Limits	24,000	[ICRA]AAA (Stable); Assigned
Non-Convertible Debentures (NCDs)	3,000	[ICRA]AAA (Stable); Assigned
Non-Fund Based Limits	17,000	[ICRA]A1+; Assigned
Commercial Paper (CP)	15,000	[ICRA]A1+; Assigned
Issuer Rating	-	[ICRA]AAA(Stable);Outstanding
Total	**63,000**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA (pronounced ICRA triple A) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs.63,000 crore[1] bank facilities, NCD and CP programme of Hindustan Petroleum Corporation Limited (HPCL)[2]. The outlook on the long-term rating is 'Stable'. ICRA also has an issuer rating of [ICRA]AAA (Stable) assigned to HPCL for general credit worthiness.

Rationale

The assigned ratings reflect HPCL's strategic importance in the domestic energy sector, its large sovereign ownership, its established brand name and leading position in the domestic oil marketing business. The rating further factors in the coastal location of the company's refineries which provides logistical advantages for import of crude oil and export of petroleum products. The rating also takes into account the strong operational efficiencies of the company with both its refineries operating at more than 100% utilisation levels and maintaining healthy energy consumption levels. The company has witnessed steady growth in its marketing volumes (CAGR of 3% over last 5-year period) driven by its growing network of retail outlets, strong demand indicators for motor spirit and diesel, and its established presence in this business segment. The liquidity profile of HPCL is robust backed by a sizeable portfolio of liquid investments (~Rs. 3,510 crore as of December 31, 2017) and adequate availability of working capital bank limits.

Although HPCL will continue to be subjected to regulatory risk on the pricing of sensitive petroleum products in line with prevailing crude oil prices, the Government of India (GoI) has been ensuring that the net under recoveries borne by Public Sector Undertaking (PSU) oil marketing companies (OMCs) are within manageable levels by absorbing most of the gross under-recoveries (GURs) itself with the rest shared by upstream companies. Any adverse change in GoI's policy in this regard will be a key rating sensitivity.

[1] *100 lakh = 1 crore = 10 million*

*2 For complete rating scale and definitions, please refer to ICRA's website (*www.icra.in*) or other ICRA rating publications.*

HPCL is also exposed to project implementation risks as it is in the midst of implementing large projects spanning the entire downstream value chain on its own books as well as through subsidiaries and joint ventures (JV). The scale of HPCL's expansion plans would lead to some moderation in its debt coverage metrics over the next 3-4 years, but ICRA expects the same to remain comfortable. Nonetheless, any material time or cost overruns that could lead to larger-than-estimated funding requirements would be a key rating sensitivity.

ICRA has taken note of the acquisition of HPCL by Oil and Natural Gas Corporation Limited (ONGC) in January 2018 wherein the latter has taken over GoI's 51.1% stake in HPCL. ICRA expects HPCL to continue to operate as a separate entity with a strong brand despite the change in ownership. Moreover, its strategic importance to the GoI is expected to remain intact despite change in majority ownership in favour of ONGC. ICRA has, however, not factored in any other M&A transactions as part of this ownership change and will continue to monitor developments in this regard and take appropriate rating action once more clarity emerges on the same.

Outlook: Stable

ICRA believes HPCL will continue to benefit from its position in the domestic energy sector, its strategic importance to the GoI and its strong parentage. The outlook may be revised to 'Negative' if there is a significant increase in net under-recoveries due to change in government policies on pricing/subsidy sharing on sensitive petroleum products, or if there is a material time/cost overrun in the ongoing group projects leading to weakening of HPCL's credit metrics.

Key rating drivers

Credit strengths

Demonstrated support of the GoI to ensure the profitability of OMCs in the past despite high under-recoveries – The GoI has provided dedicated support to cushion the OMCs from high under-recoveries in the past by institutionalising a subsidy sharing framework wherein large part of the under recoveries are borne by it through budgetary allocation. Further, materially lower under-recoveries in the last two years have led to improvement in liquidity due to fall in debt levels and lower interest burden. HPCL's net under-recoveries have declined from Rs. 164 crore in FY2015 to Rs. 20 crore in FY2016, increasing only marginally to Rs. 32 crore in FY2017. Notwithstanding change in majority ownership in favour of ONGC, ICRA believes HPCL will continue to be of strategic importance to the GoI as it will continue to play a key role in fulfilling socio-economic policies of the GoI. Any adverse change in the GoI's policy in this regard will be a key rating sensitivity.

Locational advantages of being a coastal refinery for sourcing of crude as well as exports – HPCL owns and operates two refineries, one in Mumbai and the other in Visakhapatnam. Since both the refineries are located in coastal regions, the company enjoys logistical benefits in terms of lower costs and time taken to transport the imported crude to the refineries and to export refined products to dealer locations. This also lowers the company's inventory requirement to a significant extent when compared to other OMCs with inland refineries.

Established brand name and position in the domestic refining and marketing business – The company is one of the three leading public OMCs with a ~20% market share (including private players) as of end of FY2017. The company has the second-largest marketing network spanning across the country and actively undertakes multiple branding and customer loyalty initiatives.

Healthy refining operations with steady GRM levels – HPCL has reported refinery utilisation levels above 100% for the past few years. In FY2017, the company achieved a 1million metric tonnes per annum (MMTPA) increase in its Mumbai refinery capacity (6.5 MMTPA to 7.5 MMTPA) through debottlenecking and other technical improvements leading to higher throughput. The company's GRMs have remained healthy driven by operational efficiencies and effective crude procurement strategies. The company reported GRM of US$ 7.51/bbl in 9MFY2018 compared to US$5.57/bbl in 9MFY2017.

Healthy financial flexibility supported by the strong parentage – The company enjoys high financial flexibility that allows it to raise debt and access capital markets at competitive rates to fund its capex and working capital requirements. The same is supported by HPCL's strong parentage arising from the ONGC's 51.1% stake.

Credit weaknesses

Vulnerability of the company's refining segment's profitability to the global refining margin cycle, crude price volatility, import duty protection, and INR-US$ parity levels – Given the nature of the business, the company would remain exposed to the movement in the commodity price cycles and the volatility in the crude prices. Any adverse changes in the import duty on its products would also have an impact on the company's domestic sales. The company's profitability is also exposed to the forex rates (INR-US$) given the business is largely dollarized on sales, crude procurement and forex loans.

Moderate financial profile - Although HPCL has demonstrated healthy credit metrics in FY2017 and 9M FY2018, its key credit metrics, such as Total Debt/OPBDITA, interest coverage and RoCE[3], over a longer period have been moderate. Moreover, with large capital outlay on the ongoing projects, its metrics should moderate over the next 3-4 years till the investments start yielding healthy returns.

Significant capex planned over next four-year period – The company is in the midst of aggressive capex plans of ~ Rs. 60,000 crore (including equity investments of ~ Rs. 13,000 crore in JVs) outlined for the period between FY2017 and FY2021. HPCL's capex plans include the implementation of major projects such as the capacity expansion at both its refineries, expansion of its pipeline network and setting up of new pipelines. The company would also have significant equity contribution towards key JV projects including the refinery-cum-petrochemical complex in Rajasthan (74% stake) and the setting up of an LNG terminal in Gujarat (50% stake). Any material time or cost overruns in the group projects could lead to an increase in the company's borrowing levels and weakening of credit metrics.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Downstream Oil Companies

[3] Return on capital employed

About the company:

HPCL is a public sector enterprise that owns and operates two refineries, one in Mumbai with a 7.5 million metric tonnes per annum (MMTPA) capacity and one in Visakhapatnam with a 8.3 MMTPA capacity. The 'Navratna' status company was incorporated in 1952 as Standard Vacuum Refining Company of India Limited. HPCL has a 49% stake in a JV with Mittal Energy Investments Pte. Limited for operating a 11.3 MMTPA refinery in Bhatinda, Punjab. HPCL also has a 16.95% equity stake in Mangalore Refinery and Petrochemicals Ltd. (MRPL), which operates a 15 MMTPA refinery in Mangalore. Majority shareholding of HPCL (51.1%) is held by ONGC. The same was taken over from the GoI in January 2018.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	9M FY2018 (P)
Operating Income (Rs. crore)	177,701	187,024	158,465
PAT (Rs. crore)	3,726	6,209	4,609
OPBDIT/ OI (%)	4.8%	5.7%	4.9%
RoCE (%)	16.3%	21.8%	
Total Debt/ TNW (times)	1.2	1.0	
Total Debt/ OPBDIT (times)	2.5	2.0	
Interest coverage (times)	13.1	19.8	19.8
NWC/ OI (%)	-1%	-1%	

Note: The above financials are as per Ind AS

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Networth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					March 2018	December 2017			
1	Issuer Rating	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
2	Cash Credit	Long term	4,000	-	[ICRA]AAA (Stable)	-	-	-	-
3	Fund Based Limits	Long term	24,000	-	[ICRA]AAA (Stable)	-	-	-	-
4	NCDS	Long term	3,000	-	[ICRA]AAA (Stable)	-	-	-	-
5	Non-Fund Based Limits	Short term	17,000	-	[ICRA]A1+	-	-	-	-
6	Commercial Paper	Short term	15,000	-	[ICRA]A1+	-	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit Limits	-	-	-	4,000.0	[ICRA]AAA (Stable)
NA	Fund Based Limits	-	-	-	24,000.0	[ICRA]AAA (Stable)
NA	NCDs	Yet to be placed	-	-	3,000.0	[ICRA]AAA (Stable)
NA	Non-Fund Based Limits	-	-	-	17,000.0	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	15,000.0	[ICRA]A1+
NA	Issuer Rating	-	-	-	-	[ICRA]AAA (Stable)

Source: HPCL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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